

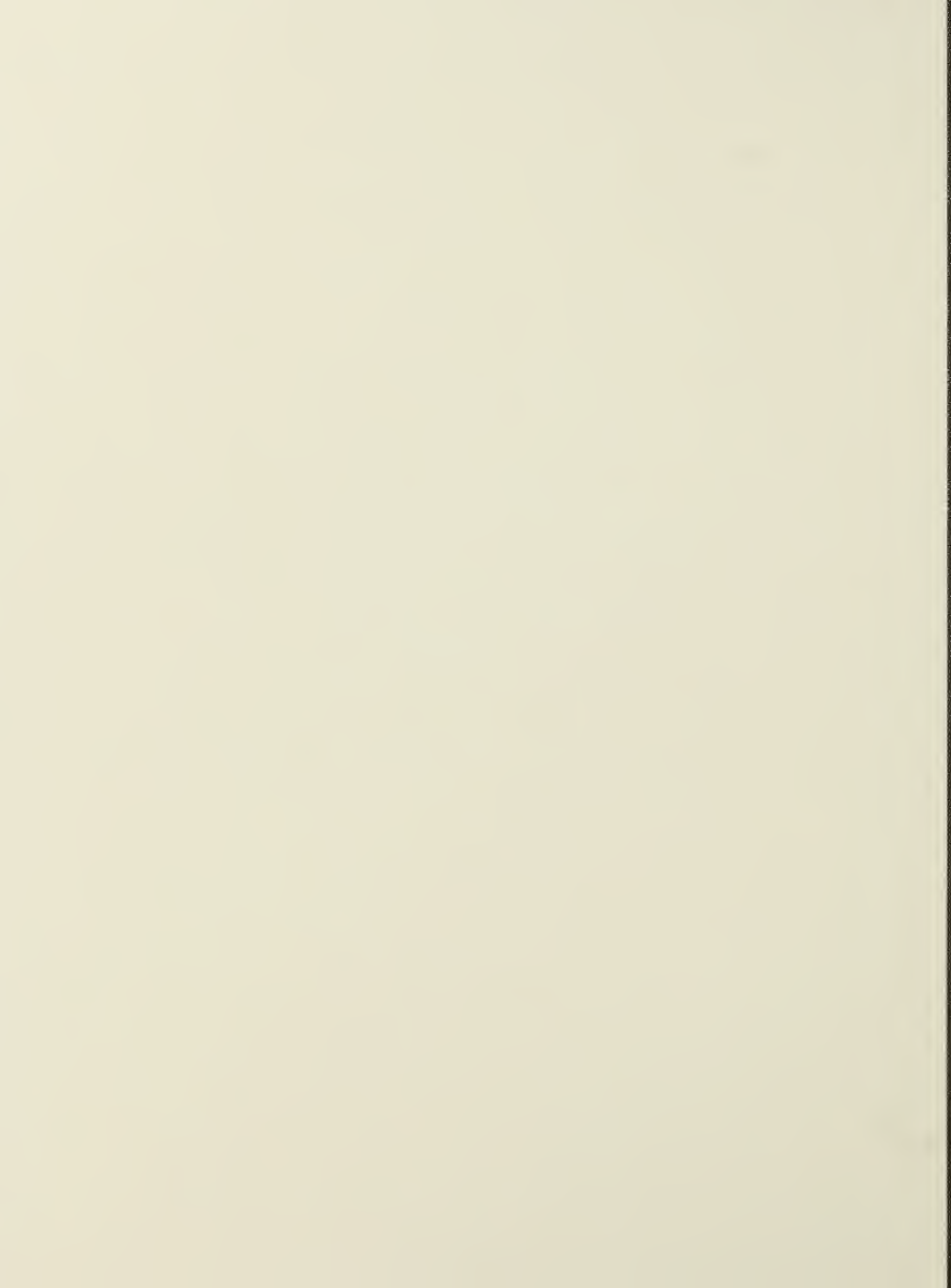
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The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

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Joseph Duffey, Chancellor
University of Massachusetts at Amherst
Whitmore Administration Building - Room 374
Amherst, Massachusetts 01003

March 20, 1991

Dear Chancellor Duffey:

In accordance with Chapter 647 of the Acts of 1989, we reviewed the internal controls over the Department of Public Safety (DPS) payroll accounts located at the University of Massachusetts at Amherst (UMA). Our review covered the period December 1, 1987 to June 30, 1990, with particular emphasis on the period March 14, 1988 to April 19, 1990, during which time thefts of DPS payroll funds occurred.

DPS, which has the functional responsibility for the campus police and related security services of UMA, is under the jurisdiction of the Vice Chancellor for Student Affairs. Accordingly, DPS operates under the general procedures and guidelines formulated for the overall administration of UMA.

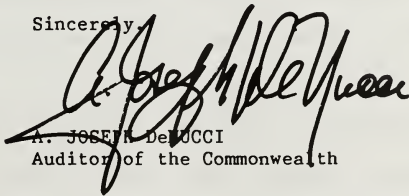
We conducted our review in accordance with generally accepted government auditing standards. In order to conduct our review, we interviewed DPS personnel, university internal auditors, and other UMA personnel. We limited our audit scope to a review of the work performed by the internal auditors and of related DPS payroll records/procedures.



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The results of our audit disclosed inadequate internal controls over DPS payroll which contributed to the conditions that permitted the falsification of payroll records and the subsequent theft of approximately \$14,000 in payroll funds. The disclosures include (1) ineffective payroll procedures, including inadequate segregation of duties, improper certification of payrolls, and an improper check-distribution system; (2) the lack of specific guidelines or instructions concerning departmental payroll procedures; (3) the lack of monitoring procedures to determine compliance with the UMA's payroll requirements; and (4) the State Board of Retirement not being notified and the university's bonding company not being promptly notified of the loss. These areas, including our recommendations for their resolution, are detailed in the attachment.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Joseph DeLucci", is written over the typed name and title.

A. JOSEPH DeLUCCI
Auditor of the Commonwealth

ATTACHMENT

Internal Controls over Department of Public Safety Payroll Accounts

The University of Massachusetts at Amherst (UMA), responding to the requirements contained in Chapter 647 of the Acts of 1989, notified the Office of the State Auditor of a falsification of payroll records and a subsequent theft of funds from UMA's Department of Public Safety (DPS) special officers account and the Security Services Office (SSO) student trust payroll account. These accounts are funded through general appropriations and trust funds of UMA. We reviewed and evaluated the system of internal controls governing the payroll activities disbursed through these accounts.

The results of our review disclosed that inadequate internal control procedures contributed significantly to the conditions that led to the thefts of about \$12,000 from the DPS special officers account and of about \$2,000 from the SSO student payroll account.

DPS special officers are individuals who, after completing a prescribed training program, are employed for special police work. These special officers can be university employees or other persons who have completed the training program. University employees have their special officer earnings added to their regular university payroll check, whereas other employees receive a check for services rendered while employed as a special police officer. The SSO student payroll is for students who are hired as security guards for various UMA buildings. These students may function as receptionists, supervisors, or escorts.

Details covering the disclosures in our review are shown below.

Payroll Procedures: UMA's Payroll Policies and Procedures Manual generally provides for the segregation of payroll duties of the payroll preparer and the approving authority. Additionally, proper payroll internal

controls based on sound business practices provide that payroll checks should be distributed, approved, and verified by individuals other than the payroll preparer.

Contrary to these policies and sound business practices, the following conditions were noted:

- o The individual who prepared the payroll was also involved in the check-distribution process. Upon DPS's receipt of the payroll checks, the preparer would give them to a police dispatcher for employees to pick up. A sign-out system indicating the receipt of checks was loosely maintained. Employees would acknowledge having received their checks by signing a check sign-out (receipt) form. The sign-out form contained the names of all special officers, whether entitled to a payroll check or not, as well as those of the department's regular employees. No verification was made by a second party to ensure that the individual picking up the check was the individual who signed the receipt form. Further, provisions were not established to return unclaimed checks to the payroll department.
- o The individual responsible for approving the payroll did not verify or check on a test basis the daily roll-call sheets or the time sheets to ensure that the individuals listed on the payroll worked the hours designated. In our discussion with the responsible individual, we were informed that reliance for the accuracy and reliability of the payrolls was placed on the payroll preparer. Consequently, he did not feel it necessary to question the authenticity of the payroll.
- o The payroll preparer, in the absence of the individual responsible for approving the payroll, was permitted to approve the DPS special officer payroll.

Payroll Guidelines or Instructions: DPS does not have written guidelines concerning its specific payroll processing functions. Such guidelines are needed to designate the areas of responsibilities concerning its time keeping records, payrolls, approving authority, and check distributions. UMA's Payroll Policies and Procedures Manual includes general payroll requirements for its central payroll department. Although this manual is deemed adequate for general payroll purposes, more specific guidelines are needed to cover the payroll duties and responsibilities at the departmental level. Without such guidelines, the specific payroll functions of the various payroll processing activities are not formally defined.

Monitoring Procedures: UMA, either at the central or DPS-departmental level, did not have any monitoring procedures to ensure compliance with its payroll requirements. In accordance with existing procedures, each department operates autonomously without being monitored by either UMA's central payroll division or the Office of the Vice Chancellor for Student Affairs, which has jurisdiction over DPS. Accordingly, departmental payroll activities remain the responsibility of the department head, the Chief of Police. This responsibility was further delegated by the Chief of Police to an administrative supervisor. As previously noted in this report, no checks and balances concerning payroll internal control procedures were evident at this level, since reliance for the various activities was placed on the individual performing the functional duties.

Bonding Company: The absence of effective internal administrative control practices is clearly illustrated by the inability of the university to take prompt action to initiate a claim with its bonding company. The university has a \$500,000 honesty blanket bond to cover fraudulent or dishonest acts by its employees. The conditions of the blanket bond clearly state that the bonding company should be notified of the loss within 30 days of its discovery. Until our inquiry, the university treasurer had not initiated action to recover the loss from the bonding company. However, because the 30-day period had passed, the bonding company did not honor the belated claim, resulting in a loss of about of \$12,000 to the Commonwealth and of \$2,000 to the university.

State Board of Retirement: UMA had not taken appropriate action to contact the State Board of Retirement concerning the possible attachment of the available retirement funds of the employee who resigned after acknowledging responsibility for the stolen funds. In our discussions with

UMA Human Resource officials, we were advised that the attachment action was not pursued, because they were unfamiliar with the circumstances surrounding the employee's resignation. The appropriate UMA personnel should have been promptly apprised of these circumstances so that the State Board of Retirement could have been contacted concerning the feasibility of seeking the attachment action.

The disclosures cited in this letter require immediate action by UMA to resolve the inadequate payroll internal controls. The resolution of these inadequacies requires improvement in the present system of internal controls. Such controls are needed to safeguard assets and to ensure that departmental procedures are in compliance with UMA policies. In addition, strong internal controls serve as a deterrent to illegal acts or to the concealment of errors.

Subsequent to our audit, responsible UMA officials informed us that DPS has begun to strengthen its internal controls by requiring the individual approving the payroll to use the daily roll-call and time sheets for verification.

Recommendation: The university should improve its system of internal controls by:

1. Strictly segregating the duties of the preparer and approver of payrolls. These individuals should not have access to the payroll checks. The custodian of the checks should maintain a payroll sign-out (receipt) form that lists only the names of those employees entitled to a check and verify that the individuals picking up checks are the persons who signed the receipt form. Checks not picked up within three days should be returned to the central payroll administration office for mailing or other disposition.
2. Having central payroll administration prepare written generalized departmental policies that will provide the framework for each department to establish written payroll policies and procedures.
3. Requiring that departments be periodically monitored to ensure compliance with established payroll policies and procedures.
4. Instituting prompt action to notify the university treasurer when a loss of funds is detected so that the treasurer can promptly contact

the bonding company. Similar action should be taken to notify the State Board of Retirement in those cases where the attachment of retirement funds may be necessary.

Auditee's Response: The Vice Chancellor of Administration and Finance for the Amherst campus responded to the audit report's recommendations, as follows:

1. Section 514 of the Payroll/Personnel Policies and Procedures Manual generally addresses these issues, and specifically identifies procedures for distribution of paychecks and the return of checks that cannot be distributed.

As of May 1990, the Department of Public Safety payroll is prepared by a Clerk III who is directly supervised by the Assistant Director of Public Safety. The prepared attendance forms along with supporting documentation is given to the Assistant Director for verification and signature approval. In the absence of the Assistant Director, the Associate Director is the alternate signature authority. The payroll checks are received by the Assistant Director. Each check is recorded on a log that the employee is required to sign and date upon receipt of the check. Checks remaining unclaimed after three working days are mailed via registered mail to the employee's address.

2. Guidelines have been prepared and are being reviewed prior to implementation.
3. We will establish a procedure to visit departments on campus to solicit comments and answer questions on payroll policies and the distribution of pay checks. The monitoring to assure compliance with the policies and procedures is an internal audit function.
4. When applicable, the University has always worked with the State Board of Retirement in cases where attachments of retirement funds may be necessary. Prior to initiating such action, we must have just cause. Since there was no action pending against this individual, no contact was made with the State Board of Retirement prior to her resignation.

The university treasurer responded to Recommendation No. 4, concerning the bonding company, as follows:

We concur with the audit finding that the insurance carrier must be notified in a timely manner. Accordingly all budgetary departments will be directed to contact the University Treasurer immediately upon any indication of a potential loss of funds. In this case we did, in fact notify the insurance carrier upon our notification, although not within the thirty-day period required, but prior to the state audit inquiry. It should be noted that a period greater than thirty days had passed since the problem was detected by University personnel. Further, the "loss" stated in the report is subject to a deductible of \$5,000 per incident, which would reduce the potential loss. The audit report also assumes that the potential loss of funds are not

retrievable from any other source or means. It also assumes that the claim would have been honored in full by the insurance carrier.

The university's audit liaison provided an overall university administration response, which states, in part:

In my role as University Audit Liaison, I will convene a special meeting of campus controllers and representatives of the Treasurer's Office to discuss and clarify the controllers' role relative to management policies and procedures that affect the important issues raised in the findings. We will reiterate those policies to the departmental managers at each campus.

Auditor's Reply: The university indicated in its response that contact was not made with the State Board of Retirement because of the lack of just cause and no action was pending against the individual. However, as previously noted in our review, the employee, upon detection of the theft by the university, acknowledged responsibility for the stolen funds and immediately resigned. Further, the employee was subsequently indicted for the embezzlement, and as of January 18, 1991 the case was pending in Hampshire Superior Court. Therefore, UMA personnel should have notified the State Board of Retirement concerning the feasibility of seeking the attachment action.

The university also indicated in its response that the bonding company was not notified in a prompt manner because more than 30 days had passed since the problem was detected by university personnel. However, although the university, through its Department of Public Safety, detected the theft on April 4, 1990, the university treasurer, who has the responsibility for notifying the bonding company, was not made aware of the problem until about the second week of June 1990. As we stated in our recommendation, the university should improve its system of internal controls to ensure that prompt action is taken to notify the university treasurer when a loss of funds is detected so that the treasurer can promptly contact the bonding company.

